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C O N F I D E N T I A L SECTION 01 OF 02 MANAMA 001840

SIPDIS

STATE FOR EB/ESC/TFS, S/CT, INL/C, IO/PHO, NEA/ARPI, EUR/PGI
TREASURY FOR JZARATE, DGLASER, AND OFAC

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TAGS: [ECON](#) [EFIN](#) [ETTC](#) [PREL](#) [PTER](#) [KTFN](#) [BA](#)

SUBJECT: US TREASURY DELEGATION DISCUSSES SYRIAN 311
DESIGNATION AND IRAQI ASSETS

REF: (A) STATE 242449

Classified By: JZARATE

(C) Summary. On the margins of the inaugural meeting of the Middle East/North Africa Financial Action Task Force, Treasury A/S Juan Zarate met with Syrian Minister of Finance Dr. Mohamed Al-Hussain and Dr. Douraid Dergham, the chairman of the Commercial Bank of Syria (CBS). They discussed the steps the Syrians need to take for the removal of the Section 311 designation of the CBS as a "primary money-laundering concern". Most of the discussion eventually focused on the condition that Syria transfer Iraqi assets frozen in CBS to the Development Fund for Iraq (DFI). Minister Al-Hussain committed to work with Iraq and again called for an Iraqi delegation to come to Damascus to resolve the issue. This discussion was followed by two separate "trilateral" meetings between Minister Al-Hussain, A/S Zarate, and representatives from the Iraqi Finance Ministry and Central Bank who were present in Bahrain. The Iraqis initially insisted that all Iraqi funds at CBS be immediately transferred to the DFI pursuant to UNSCR 1483. Eventually, the Syrians and Iraqis agreed that a meeting in Damascus would occur following the transfer of a relatively small amount (\$3-6 million) from CBS to DFI. The Syrians asserted that this transfer could be effected within a week. End Summary

(C) Syria Responds to Action Items

(C) On November 29, 2004, on the margins of the MENA FATF inaugural meeting, a US delegation led by Treasury A/S Juan Zarate with representatives from Treasury, OFAC, FinCEN, FBI, and State, met with a Syrian delegation headed by Dr. Mohamed Al-Hussain the Syrian Minister of Finance, and including Dr. Douraid Dergham, the chairman of the Commercial Bank of Syria (CBS). The meeting focused on a Treasury Department list of Action Items that Embassy Damascus presented to the Syrians in November (Ref A). The Syrians must address and correct these action items in order to continue the postponement of the issuance of the final rule implementing the Section 311 designation of the CBS and for the eventual lifting of the Section 311 designation. (Note. Section 311 refers to a section of the Patriot Act that gives the Treasury the ability to designate a foreign entity or country as a "primary money-laundering concern" and to require U.S. financial institutions to terminate correspondent relationships with the designated entity or country. Endnote.)

(C) Al-Hussain stressed the Syrian willingness to work with the USG on these issues and wanted to bring back positive results to Syria. He also wanted a definite time frame and closure to the issue if the Syrians accomplished the US requests. Zarate explained that the USG would need to see real progress and good faith on issues of concern in order to be in a position to reconsider the 311 designation. Zarate also stated that the US expects Syria to act as a partner in these issues and there may be more lists of requests in the future. For example, establishing FIU to FIU relations involves an ongoing and evolving relationship and mutual information exchange.

(C) Al Hussain then laid out the steps the Syrians have taken in reference to the Treasury's list of sixteen Action Items (Note: For ease of reference the action item number will follow the item discussed. Endnote). Al Hussain addressed eight of the action items and said that not all the Action Items required new legislation but could be enacted through decree. Al Hussain stated that: the Money Laundering Commission is being reviewed to remove both private and publicly-owned banks from the Commission (#3); private banks working in the free trade zones were subject to the Central Bank (#5); the Ministry of Finance was working with the Central Bank to refine the rules and control the money flow (#6); Customs is tightening its rules on money crossing the border. They have had incidents of money smuggling (into Lebanon) but he reported they weren't money laundering or terrorism financing (#7); they will extend an invitation to the IMF/World Bank for an AML/CFT assessment (#8); charitable organizations can now only send "in-kind" contributions for humanitarian aid and not money (#10); the Ministry of Foreign Affairs is examining the International Convention on the

Suppression of Terrorist Financing for ratification (#12). Finally, Al-Hussain stated that they were collecting the specific account information requested (# 16) and would provide it once they worked out the legal issues with the Ministry of Finance, the Central Bank and other Ministries. (Comment: Al Hussain did not address items 1, 2, 4, 9, 11, 13-15 directly during the meeting. End Comment)
(C) Al Hussain expressed disappointment that A/S Zarate characterized the cooperation by the Syrians as "weak" in Mr. Zarate's testimony to Congress and stressed the Syrian willingness to work together on these issues.

(U) Technical Assistance Request

(U) Al-Hussain expressed a need for technical assistance on customs and banking issues. Mr. Zarate said he would explore options for technical assistance with Customs and other appropriate agencies back in Washington.

(C) Iraqi Assets: Syria still waiting for Iraqi delegation to Damascus

(C) Al Hussain reiterated the Syrian position, on Iraqi assets in Syria, that they would be willing to discuss the issue with the proper Iraqi delegation in Damascus - but so far no one has come. The Syrians would like to meet with the Iraqi Minister of Finance, Oil Minister, General Manager of SOMO, and the Central Bank Governor. Mr. Zarate stated that the Jordanians had already released the assets back to Iraq. To this Al-Hussain reiterated that they wouldn't accept any official unless they come with the proper authority and credentials to disperse funds to the right people.

(C) After the bilateral meeting two trilateral meetings were held among the Iraqi delegation (Dr. Sabah Awny, from the Ministry of Finance and Ms. Hanna Ibraheem Alkhafaji, from the Central Bank), the Syrians and the US. The Iraqi delegation initially insisted that all funds that had been located in Syria as of May 2003 (the date of the passage of UNSCR 1483) should be immediately transferred to the DFI. After much discussion of cash versus trade accounts, the requirements of UNSCR 1483, and the magnitude and nature of Syrian commercial claims, Dr. Sabah agreed that he would gather the appropriate delegation to come to Damascus. Dr. Dergham (Chairman of CBS) stressed his confidence that an overall resolution could be reached within 2-3 weeks of the arrival of an Iraqi delegation in Damascus. Minister Al Hussain in turn agreed to transfer the funds (approximately USD3.5 million) in the non-protocol accounts to the DFI quote next week unquote.

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